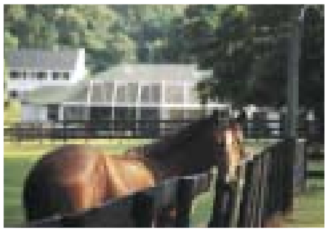
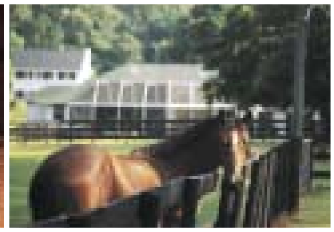




2002 ANNUAL REPORT

PALMETTO FARM CREDIT, ACA





“The only thing that endures over time is the ‘Law of the Farm.’ You must prepare the ground, plant the seed, cultivate, and water if you expect to reap the harvest.”

Stephen R. Covey

CONTENTS

Looking Back at 2002

Like so many of our farmer customers, Palmetto Farm Credit did not have a particularly good year in 2002. Extreme weather conditions – drought during the critical growing season, heavy rainfall at harvest time, and an early onset of winter – brought about the worst year production-wise for area crop farmers in 25 or more years.

The general economy continued to limp along, and prices for most agricultural products remained at relatively low levels. Income received from federal farm programs helped to mitigate the dual adverse impacts of reduced production and low prices. However, production problems encountered by many South Carolina farmers were among the most challenging faced by any American farmers, and net farm income for the majority of our crop farmer customers declined significantly compared to recent years.

Palmetto Farm Credit's income was also adversely affected during 2002 due to the bankruptcy of a large wood processing facility financed by the Association. Even though major portions of our loans to the facility were backed by U.S. government guarantees, we have taken a conservative approach to valuation of the specialized assets pledged as collateral for the loans and have established charge-offs accordingly. The combination of the charge-offs associated with these loans and continued growth in our loan portfolio necessitated a $3 million provision to our allowance for loan loss account during 2002. This larger-than-normal provision for loss resulted in reduced net income for the year.

Two other circumstances also contributed to our lower earnings. Like most businesses, we had to deal with major increases in employee benefits expense due to rapidly rising health care costs and to increased funding for our retirement plan in the wake of the ongoing stock market decline. We also faced increases in several noncontrollable areas such as insurance premiums and audit/examination expense.

Interest Rate Environment

The falling interest rate environment led to much lower interest income being generated by our lendable equity position of some $62 million that is used to fund a large portion of our prime-based loan portfolio. Lendable equity reflects the portion of our own funds that we use in our lending operation. As of December 31, 2002, customers with prime-based loans were paying an average rate of 5.10% compared to 10.22% two years earlier. Due strictly to lower average interest rates in 2002, that portion of our portfolio generated $1.01 million less in interest income than during 2001.

The following table shows the trends in interest income realized by our Association over the past five years.

(In thousands)	1998	1999	2000	2001	2002
Total Interest Income	$40,769	$38,134	$41,659	$43,043	$39,669
Interest Expense	$(25,598)	$(25,048)	$(27,717)	$(28,845)	$(25,291)
Net Interest Income	$15,171	$13,086	$13,942	$14,198	$14,378

Over the five-year time span, loan volume increased by over $182 million or almost 42%. Interest income for 1998 included approximately $1 million in nonrecurring income related to the liquidation of several large loans that had been in nonaccrual status for an extended period of time. Although net interest income has increased each year for the past four years, the amount of the increase has been moderated by the lower interest rate environment. Looking at just the differences between 2001 and 2002, interest paid by our customers declined by $3.37 million while net interest income increased by only $180 thousand even as loan volume increased significantly.

But there were some bright spots in our operation during 2002 as well. The falling interest rate environment and the astute asset-liability management strategies of AgFirst Farm Credit Bank, which provides the majority of our funds for lending, allowed us to reprice many loans during 2002. With minimal cost and essentially no hassle for our customers, a large portion of our fixed rate loan portfolio was repriced during the second half of 2002. In doing so, we were able to reduce the average rate paid by our customers at year-end by 57 basis points compared to a year earlier while the net interest spread realized by our Association grew by 35 basis points as well. Compared to two years earlier, the average interest rate paid by all customers at December 31, 2002 was 2.97% less while our net spread had increased by 44 basis points.

As shown in the following graphs, the average rate paid by our customers fell from 9.17% at year-end 2000 to 6.20% by the end of 2002. The Association's net interest spread increased from 1.82% to 2.26% during the same period.

FIGURE 1

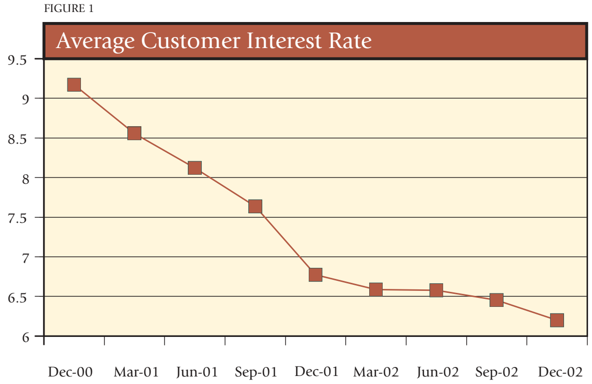
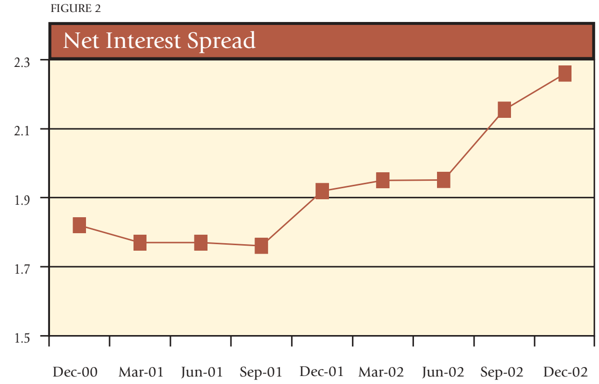


FIGURE 2



Lending Operation

Loan activity occurred at a record pace in 2002. Loan funds advanced totaled $292.36 million, an increase of over 8% compared to the previous year. (Figure 3.)

Year-end gross loan volume, which includes participations sold but still serviced by our Association, grew to $687.12 million, an increase of over 6%. Because much of our growth occurred during the first half of the year, the average daily balance of our net accruing loans grew by over 14% during 2002. Figure 4 reflects the five-year trend in growth in net loan volume.

FIGURE 3

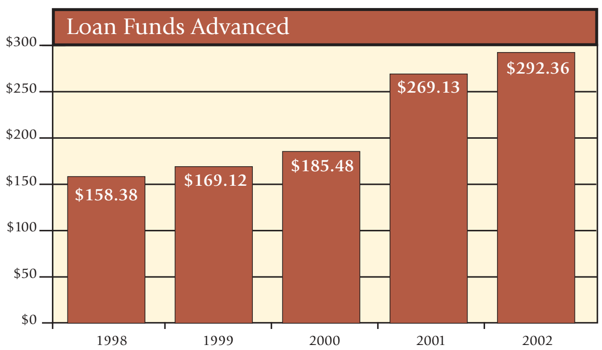
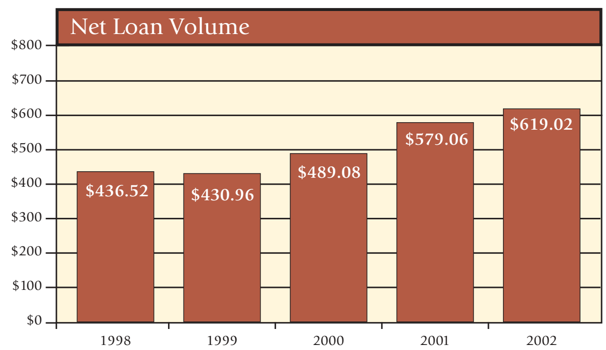


FIGURE 4



Even with this positive loan growth, loan portfolio quality remained strong. Acceptable/OAEM loan volume stood at 97.68% at year-end, and our average delinquency rate of .53% reflected the best collection results in the past five years. Nonearning assets, consisting of nonaccruing loans and acquired property, were up to $8.37 million at year-end, due primarily to the previously mentioned bankruptcy. We expect final resolution of that account as well as several other larger accounts by mid-2003, and the Association should return to a more normal level of nonearning assets at that time.

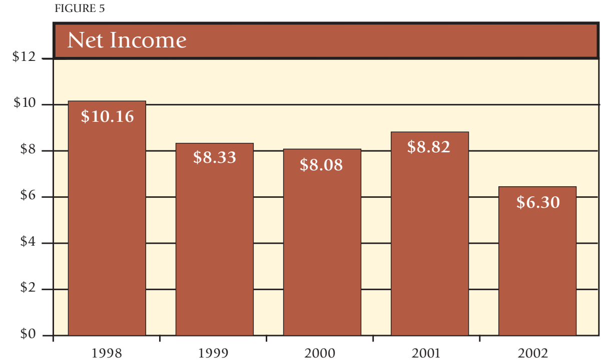
As South Carolina agriculture continues to transition to a larger number of small part-time or lifestyle operations and a smaller number of large commercial operations, we must also concentrate on the appropriate management and diversification of risk in our loan portfolio. To that end, we have become more active over the past several years in selling and purchasing loan participations. Participation activity allows our credit staff to sell portions of large loans or loans involving concentrations in geographical areas or certain commodities while purchasing portions of other loans representing different commodities and different regions primarily from sister Farm Credit entities.

Net Income

Operating expenses were up by $1.56 million or over 17% due in part to increased employee benefits costs. We have made adjustments to both our health insurance program and our retirement plan in an effort to contain future increases in employee benefits expense. Because of continued growth in the outstanding loan volume across most of the Farm Credit System, the premiums assessed to our Association by the Farm Credit System Insurance Corporation increased by over $182 thousand compared to the previous year. We also made a strategic decision to utilize the Farmer Mac in-portfolio guarantee program to reduce the risk-rating on approximately $90 million of our agricultural loan portfolio in order to help capitalize the significant growth that we experienced over the past two years. The fees associated with the Farmer Mac program totaled $227 thousand in 2002 but allowed us to add over $70 million to the loan portfolio which generated over $2 million in additional revenue.

Final net income for 2002 totaled $6.30 million or 20% less than our business plan projection and almost 29% less than in 2001. The decrease was due to the significant increase in the provision for loan loss account coupled with the previously discussed increase in operating expenses. We are not happy with the trend in net income shown in the following graph (Figure 5), and we project a return to more normal levels of income in 2003.

FIGURE 5



One key area of our future strategic focus is on increasing the net income of our Association. Revenues in future years are projected to grow due to greater loan volume, increased net spreads, enhanced income from fees and related services, and a reduction in nonearning assets. Since our Association is a service business, much of our expense is people-related. Compensation and benefits expenses comprised over 68% of total operating expense during 2002, and that trend is not expected to change materially even as we invest more in technology to stay abreast of the rapid changes in the financial services industry.

Capitalization

Since customers purchase a maximum of $1,000 in at-risk stock in connection with loan transactions, the Association must capitalize most of its loan growth through the generation and retention of earnings. In planning for the future, our directors have been very conscious of our recent growth and the capital challenges that the growth presented to our Board and management team. The decision by our Board to revolve or retire in cash $3.51 million of the 1996 series of allocated surplus in early 2003 reflects a healthy balance between returning capital to our customers and ensuring that the Association is properly capitalized.

The year 2002 also marked the first year of operating the Association as a holding company with a separate tax-exempt Federal Land Credit Association (FLCA) subsidiary. The holding company structure that maintains all long-term loans in the FLCA allows the Association to reduce its federal and state tax burden which will position us to build needed capital more quickly in the future. The holding company structure also allowed revisions to our patronage refund program so that our customer/stockholders will pay tax only on the cash portion actually received from the Association effective with the April 2003 patronage refund.

Proposed Consolidation

Like much of the financial services industry, the Farm Credit System continues to consolidate. In the early 1970s, there were more than 800 separate Farm Credit Associations nationwide. Today, there are just 99, and that number continues to decline due to marketplace dynamics and changing operating environments.

During 2002, our Board was approached by a neighboring Association, AgSouth Farm Credit which is headquartered in Statesboro, Georgia, about a potential merger of the two Associations. After devoting significant time and effort to due diligence activities, financial analysis, and strategic planning, the two Boards have unanimously agreed to recommend merger of the two Associations to the respective stockholder groups.

Appropriate disclosure materials are now being prepared, and the required AgFirst Farm Credit Bank and regulatory approvals are being pursued. Current timelines project special stockholder meetings to be held during the summer of 2003 to vote on the proposed merger with an anticipated effective date of January 1, 2004.

While any such bold business initiative will inevitably bring change, both boards are strongly committed to ensuring that there will be no reductions in the current levels of customer service and satisfaction. Branch locations will be retained and local service will not be affected. Administrative offices in Statesboro, Orangeburg, and Spartanburg will continue as well.

The boards and management teams believe that the proposed merger appropriately positions the new organization for greater future success. In financial terms, the merger should reduce operating overhead and unit cost over time and create a more efficient business operation. From a risk management perspective, the additional geographical and commodity diversification should allow the new organization to better weather future economic cycles and to more effectively serve the farm, agribusiness, and rural customers of the 21st Century.

Winston Churchill once said, “Take change by the hand, or it will take you by the throat.” Our directors and staff members are approaching the proposed merger with positive attitudes and high expectations. The financial and strategic benefits appear to be significant for both sets of stockholders, and we will be providing additional details about the proposed merger as we move through 2003.

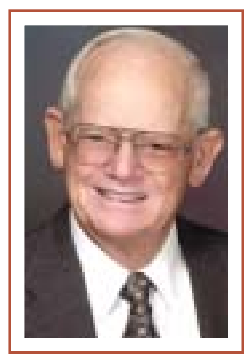
Looking Forward to 2003

Reasonably good weather, a more level playing field with respect to international trade, and further economic progress both domestically and world-wide are keys to future improvement in net income for many farmers. Producers will have to closely manage overhead expenses while also seeking new and expanded revenue sources if they are to successfully compete in the changing agribusiness economy. American farmers have overcome such challenges in the past, and their focused work ethic and optimistic outlook should continue to position them for future success as food and fiber production evolves in the 21st Century.

We continue to be very thankful for the strong business relationships that we have cultivated over the years with our customers. The year 2002 marked our 85th year of service to South Carolina farmers, agribusinesses, and country homeowners. We look forward to 2003 with hopes for good weather, improved prices for agricultural products, and a strong rebound in our overall economy.

Lynn Z. Dantzler
Chief Executive Officer

Jerry A. Smoak
Chairman of the Board



"Let us never forget that the cultivation of the earth is the most important labor of man. Unstable is the future of that country that has lost its taste for agriculture. If there is one lesson in history that is unmistakable, it is that national strength lies very near the soil."

–Daniel Webster–

BOARD OF DIRECTORS

Seated, from the left: Thomas H. Coward; Jerry A. Smoak-Chairman; Harry S. Bell-Vice-Chairman; Dr. W. Baynard Boykin

Standing, from the left: Robert A. Youmans, Hugh E. Weathers, Jack J. Arnold, Edward M. Rast, Diane H. Edwins, Earle J. Bedenbaugh, Eugene W. Merritt, Jr, W. Gordon Wells, Albert F. Busby, Gary L. Alexander, Charles Ray Brown, Raymond L. Tumbleston, Arthur Q. Black, C. E. Thrailkill, T. W. Buzhardt, (*not pictured:* Samuel A. Milford)

REPORT OF MANAGEMENT

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Palmetto Farm Credit, ACA (the Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that the 2002 Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jerry A. Smoak
Chairman of the Board

Lynn Z. Dantzler
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

February 19, 2003

From the left: Alisa D. Gunter, Chief Financial Officer
Lynn Z. Dantzler, President & Chief Executive Officer
Steven S. Wood, Chief Operating Officer

CONSOLIDATED FIVE-YEAR SUMMARY

OF SELECTED FINANCIAL DATA

[UNAUDITED]

(dollars in thousands)	2002	2001	December 31, 2000	1999	1998
Balance Sheet Data					
Cash	$ 1,716	$ 1,756	$ 1,728	$ 168	$ 647
Loans	619,021	579,058	489,079	430,956	436,522
Less: allowance for loan losses	13,928	14,848	14,469	14,442	15,059
Net loans	605,093	564,210	474,610	416,514	421,463
Investment in other Farm Credit institutions	10,841	12,129	12,944	12,705	12,783
Other property owned	1,825	1,745	1,790	3,517	90
Other assets	14,466	17,299	17,812	15,801	16,346
Total assets	$ 633,941	$ 597,139	$ 508,884	$ 448,705	$ 451,329
Notes payable to AgFirst Farm Credit Bank*	$ 550,184	$ 508,594	$ 423,380	$ 363,998	$ 366,780
Accrued interest payable and other liabilities with maturities of less than one year	13,232	11,580	9,449	11,345	10,992
Total liabilities	563,416	520,174	432,829	375,343	377,772
Protected borrower equity	891	1,190	1,485	1,901	2,801
Capital stock and participation certificates	3,605	3,607	3,522	3,648	3,764
Retained earnings					
Allocated	36,974	36,989	35,224	32,401	32,579
Unallocated	35,960	35,179	35,824	35,412	34,413
Accumulated other comprehensive income (loss)	(6,905)	—	—	—	—
Total members' equity	70,525	76,965	76,055	73,362	73,557
Total liabilities and members' equity	$ 633,941	$ 597,139	$ 508,884	$ 448,705	$ 451,329
Statement of Income Data					
Net interest income	$ 14,378	$ 14,198	$ 13,942	$ 13,086	$ 15,171
Provision for (reversal of) loan losses	3,000	400	—	—	450
Noninterest income (expense), net	(5,074)	(4,978)	(5,865)	(4,757)	(4,564)
Net income	$ 6,304	$ 8,820	$ 8,077	$ 8,329	$ 10,157
Key Financial Ratios					
Rate of return on average:					
Total assets	1.02%	1.63%	1.73%	1.86%	2.26%
Total members' equity	8.26%	11.60%	10.95%	11.22%	13.25%
Net interest income as a percentage of average earning assets	2.40%	2.71%	2.99%	3.00%	3.47%
Net chargeoffs (recoveries) to average loans	0.65%	—	(0.01)%	0.14%	0.02%
Total members' equity to total assets	11.12%	12.89%	14.95%	16.35%	16.30%
Debt to members' equity (:1)	7.99	6.76	5.69	5.12	5.14
Allowance for loan losses to loans	2.25%	2.56%	2.96%	3.35%	3.45%
Permanent capital ratio	11.77%	12.18%	13.26%	14.64%	14.68%
Total surplus ratio	11.09%	11.52%	12.47%	13.74%	13.75%
Core surplus ratio	8.04%	8.74%	9.45%	10.37%	10.62%
Net Income Distribution					
Estimated patronage refunds:					
Cash dividend	$ 1,641	$ 2,826	$ 2,285	$ 2,199	$ 2,974
Qualified allocated retained earnings	—	6,593	5,332	5,131	5,710
Nonqualified allocated retained earnings	3,828	—	—	—	—

* *General financing agreement is renewable on two-year cycles. The next renewal date is December 31, 2003.*

MANAGEMENT'S DISCUSSION

AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

[DOLLARS IN THOUSANDS, EXCEPT AS NOTED]

The following commentary reviews the financial condition and results of operations of Palmetto Farm Credit (Association) for the years ended December 31, 2002 and December 31, 2001. This information should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and other sections in this annual report.

Much of the crop production in the Association's territory occurs in the middle and southern portions, and primary crops include wheat, corn, cotton, soybeans, hay, tomatoes, peaches, and melons. The northern portion is home to a significant number of contract broiler and turkey farms, beef cattle operations, and part-time farms that involve production of crops, livestock, and poultry. A well-developed forestry industry, encompassing both hardwood and softwood production as well as various wood processing facilities, is evident throughout the territory.

The 2002 growing season was a difficult one for many of the Association's full-time farmer customers. Hot, dry weather conditions prevailed through most of the spring and summer months and adversely affected yields for non-irrigated small grain crops, corn, soybeans, and cotton. Heavy late summer and fall rainfall then materially reduced the yields and the quality of the area's cotton and soybean crops.

Even though many farmer customers purchased enhanced crop insurance coverage for their 2002 crops, crop insurance payments were generally not sufficient to offset the losses in production. While overall U.S. production of key agricultural commodities was generally lower than in recent years, production from competing countries filled the gaps, and a relatively strong U.S. dollar put American farmers at a disadvantage in the global marketplace.

Some market-related government payments to farmers decreased compared to previous years, and the loss of payments pegged to production hit those farmers who experienced lower yields particularly hard. Congress continues to debate providing some additional disaster payments to farmers who faced weather-related adversities, but prospects for such relief are uncertain due to the widening federal deficit and increased demand for government funding in other areas.

Without direct disaster payments from the federal government, net farm income in South Carolina for 2002 will be down significantly compared to previous years. Competition from South American, European, and Asian growers will likely keep agricultural commodity prices low in 2003, putting even more pressure on area farmers to produce good yields. Producers who depend primarily on income from row crops and grain do, however, account for a relatively small portion of the Association's total customer base. Poultry, livestock, and dairy producers also saw operating margins come under increased pressure during 2002. Although feed costs remained relatively low, problems of over-supply kept prices low for meat, eggs, and milk for much of the year. Beef producers generally fared best among meat producers, while dairy and egg producers struggled to generate profits.

Reduced export demand for poultry products challenged broiler and turkey integrators for much of the year. However, several area broiler integrators continued to expand their contract grower networks during 2002, particularly in the southern and middle portions of the Association's territory. Many traditional row crop farmers are becoming contract broiler growers as a way to diversify their income streams while also utilizing the poultry litter to reduce their fertilization costs.

Even as historically low interest rates continued to stimulate robust new home construction, operating margins for most forestry and wood processing business remained distressed. Large supplies of cheap Canadian and eastern European imports drove prices for lumber down, and stumpage prices for both hardwood and softwood were generally lower during 2002. Wet conditions in late 2002 created challenges for many timber harvesters and led to increased offers for timber tracts on higher land that could be readily logged in order to avoid interruptions in supply to area sawmills and wood processors.

The nonfarm economy in South Carolina has continued to shift away from textile and traditional manufacturing activities. Growth in tourism-related activities continues, particularly in the coastal areas, and growth in the services industry is apparent as well. Due to continued migration of retirees and others who are attracted into the state by the quality of life and the business climate, demand for residential and recreational land remained strong. Rural land values increased 3 to 5 percent in most areas during 2002, and despite the adverse weather conditions that endured for much of the year, cropland values generally increased as well.

Nonfarm employment opportunities continue to slowly improve, and the South Carolina economy is expected to perform above the national level in the long-term. Growth in the major population centers of the state and along the expanding interstate highway system has contributed to a steady increase in part-time or lifestyle farmer operations across the state. These types of operations provide important new business potential for the Association.

As we move into 2003, a number of uncertainties remain. Tensions in the Middle East, the international economic slump, threats of additional terrorism, and rising energy costs all are legitimate causes for concern. Even with a new Farm Bill in place, farmers face both production-related concerns such as weather conditions as well as marketing and pricing dynamics that are increasingly shaped by global production and world economic factors.

LOAN PORTFOLIO

The Association provides funds to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, and farm-related businesses for financing of short and intermediate-term credit needs and for long-term real estate mortgage loans. The geographic distribution of the loans is as follows:

Branch	12/31/02	12/31/01
Aiken	3.63%	2.48%
Allendale	4.98	4.32
Anderson	10.82	10.76
Bamberg (SAM)	.36	1.03
Batesburg	10.74	7.03
Camden	5.83	6.60
Commercial-North/Participations	7.81	11.50
Commercial-South	8.88	10.36
Greenwood	5.00	1.76
Laurens	6.47	5.72
Newberry	–	1.97
Orangeburg	7.37	7.87
Rock Hill	4.25	3.72
St. Matthews	3.07	3.13
Spartanburg	8.86	8.90
Summerville	7.01	7.60
Walterboro	4.92	5.25
	100.00%	100.00%

The diversification of the Association loan volume by type is shown below:

Loan Type	12/31/02	12/31/01
Long-term farm mortgage	54.20%	46.66%
Production and intermediate-term	40.13	42.38
Rural home	7.83	8.49
Farm-related business	.55	.60
Aquatic	.16	.13
Basic processing and marketing	3.61	7.75
Nonaccrual	1.06	.36
Sales contracts/purchase money mortgages	.48	.54
Plus: participations purchased	4.04	5.65
Less: participations sold	(12.06)	(12.56)
	100.00%	100.00%

Predominant commodities in the portfolio are timber and forest products, poultry, beef cattle, feed grains, soybeans, hay, horses, and cotton, which altogether constitute 72.56 percent of the entire portfolio. Please refer to Note 3 in the Notes to the Consolidated Financial Statements section of this annual report for additional information concerning loan types and the loan portfolio.

The gross loan volume of the Association as of December 31, 2002, was $619,021, an increase of $39,963 or 6.90 percent as compared to $579,058 at

December 31, 2001. Net loans outstanding on December 31, 2002, were $605,093 as compared to $564,210 at December 31, 2001. Net loans accounted for 95.45 percent of total assets on December 31, 2002 as compared to 94.49 percent of total assets at December 31, 2001.

The increase in both gross and net loan volume during the reporting period is primarily attributed to focused marketing efforts, originations of a significant number of new larger credits, and purchases of participations from AgFirst Farm Credit Bank (the Bank) and other Farm Credit Associations.

The Association experienced a shift in loan asset or portfolio composition during 2002. The long-term mortgage portion of the portfolio increased due to increased demand for loan funds for land and timber purchases, and several large loans in this category were closed during the year. The adverse weather conditions also reduced the acreage planted for several key crops such as cotton and soybeans, and less funds were advanced on seasonal operating-type loans. The decrease in basic processing and marketing loan volume was due to charge-offs related to a large wood processing facility loan that was transferred to nonaccrual during 2002.

During 2002, the Association continued to be actively involved in the buying and selling of loan participations both within and outside of the Farm Credit System (FCS). These participation-related activities provide a means for the Association to spread credit concentration risks and realize additional non-patronage sourced interest and fee income, which help to strengthen the Association's earnings and capital positions. As of December 31, 2002, the Association had $25,087 in participation loans purchased from other FCS institutions, offset by $74,647 in participation loans sold.

There is an inherent risk in the extension of any type of credit. Association management maintains an allowance for loan losses in an amount sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at December 31, 2002 was $13,928 and was considered by management to be adequate to cover possible losses.

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	12/31/02	12/31/01
High-risk Assets		
Nonaccrual loans	$ 6,546	$ 2,079
Restructured loans	199	353
Accruing loans 90 days past due	77	770
Total high-risk loans	6,822	3,202
Other property owned	1,825	1,745
Total high-risk assets	$ 8,647	$ 4,947
Ratios		
Nonaccrual loans to total loans	1.06%	.36%
High-risk assets to total assets	1.36%	.83%

Nonaccrual loans increased $4,467, or 214.86 percent in 2002 due to the transfer of several large specialized loans. The transfer decisions were made based upon the current financial dynamics of each of the entities and current market conditions after thorough review and analysis. Any potential losses associated with these transfers were considered in the decision to fund the allowance for loan loss. These transfers to nonaccrual were partially offset by liquidations and payments on other nonaccrual loans in the normal course of business. There are no significant potential credit risks within the loan portfolio that are expected to adversely impact the performance of the loan portfolio in the near future.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or a deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2002, totaled $6,304, a decrease of $2,516 or 28.53 percent, as compared to $8,820 for the same period of 2001. Interest income for the year ended December 31, 2002, was $39,669, a decrease of $3,374 or 7.84 percent as compared to $43,043 for the same period of 2001. Major components of the changes in net income for the past two years are outlined in the following table.

Changes in Net Income:

	2002-2001	2001-2000
Net income (prior year)	$ 8,820	$ 8,077
Increase (decrease) in net income due to:		
Interest income	(3,374)	1,384
Interest expense	3,554	(1,128)
Net interest income	180	256
Provision for loan losses	(2,600)	(400)
Noninterest income	1,222	1,023
Noninterest expense	(1,563)	801
Benefit (provision) for income taxes	245	(937)
Total changes in income	(2,516)	743
Net income	$ 6,304	$ 8,820

Net interest income was up by $180 or 1.27 percent in 2002 compared to 2001. The primary reason for this increase was higher accruing loan volume in 2002 than in 2001. Also, the Association actively repriced portions of the portfolio to the benefit of the customer and the Association. Interest income on nonaccrual loans for the twelve months ended December 31, 2002, totaled $369, a decrease of $49 or 11.72 percent, compared to $418 for the previous year. Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this annual report to review key financial ratios pertaining to earnings and net interest income. The sources of change in net interest income are illustrated, as follows:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/02 - 12/31/01				
Interest income	$ 6,229	$(9,554)	$ (49)	$(3,374)
Interest expense	4,987	(8,541)	–	(3,554)
Change in net interest income	$ 1,242	$(1,013)	$ (49)	$ 180
12/31/01 - 12/31/00				
Interest income	$11,042	$(9,339)	$ (319)	$ 1,384
Interest expense	8,128	(7,000)	–	1,128
Change in net interest income	$ 2,914	$(2,339)	$ (319)	$ 256

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

The Association made a significant increase to the provision for loan loss in 2002 totaling $3,000. The decision to fund the provision at such a level was due to charge-offs experienced on a large distressed loan asset that filed Chapter 7 bankruptcy. This credit, which includes participations sold to several other Farm Credit institutions, is expected to be resolved sometime in 2003.

Noninterest income for the period ended December 31, 2002, increased $1,222, as compared to the same period of 2001. The increase is attributed to a higher patronage refund from other Farm Credit institutions, including a special patronage distribution of $620 from the Bank, and a smaller loss on other property owned than in 2001. The positive increase was offset by a decrease in loan fees of $22, a decrease in fees for financially related services of $67, and a decrease of $250 in miscellaneous income.

Noninterest expense increased $1,563 or 17.37 percent for the twelve months ended December 31, 2002, as compared to the same period of 2001. Operating expenses for the year ended December 31, 2002, totaled $10,562, an increase of $1,563, or 17.37 percent, compared to $8,999 the previous year-end. Salaries and employee benefits accounted for $1,382, or 88.42 percent of the increase in operating expenses. The Association expensed $183 more than 2001 to fund the Farm Credit Insurance Premium Fund in 2002.

A key factor in the growth of net income for future years will be continued improvement in net interest income and noninterest income. The Association's goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our customer/owners. To meet this goal, the Association must attract and maintain high-quality loan volume priced at competitive rates and effectively manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our customers.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable to the Bank. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at December 31, 2002, were $550,184 as compared to $508,594 at December 31, 2001. The increase of $41,590 or 8.18 percent during the period is attributable to the increase in loan volume.

The Association had no lines of credit outstanding with third parties as of December 31, 2002.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options that will permit the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of Farm Credit debt of similar terms to maturity.

The Association's net interest income as a percentage of average earning assets (net interest margin) was 2.40 percent on December 31, 2002, compared to 2.71 percent on December 31, 2001. The decrease is related primarily to the reduction in net interest rate spreads on prime and LIBOR-based variable rate loans in a falling interest rate environment. In the Association's asset-liability management arrangement with the Bank, the Association is always asset sensitive and uses its loanable funds position to fund a significant portion of its prime-based variable rate loans. The pricing formula used in determining direct note rates from the Bank to the Association for variable rate funding reduces net spreads for the Association in a falling rate environment.

The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at December 31, 2002, decreased 8.37 percent to $70,525, from the December 31, 2001, total of $76,965. The primary factor in the decrease was the recording of $6,905 in accumulated other comprehensive loss related to a minimum pension liability adjustment. Refer to Note 9 in the notes to the consolidated financial statements section of this annual report for additional information.

Total capital stock and participation certificates were $4,496 on December 31, 2002, compared to $4,797 on December 31, 2001. This 6.27 percent decrease is attributed to the retirement of protected and at-risk stock and participation certificates on loans liquidated in the normal course of business, and new loans being capitalized at lower regulatory levels.

The Association's permanent capital ratio as of December 31, 2002 was 11.77 percent compared to 12.18 percent on December 31, 2001. Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain a minimum permanent capital ratio of 7 percent. The permanent capital ratio is calculated by dividing the Association's permanent capital by its risk-adjusted asset base.

FCA regulations also require all Farm Credit institutions to maintain two other minimum capital ratios: total surplus ratio of 7 percent and core surplus ratio of 3.5 percent. The total surplus and core surplus ratios are calculated by dividing total surplus and core surplus as defined in FCA regulations by a risk-adjusted asset base. As of December 31, 2002, the Association's total surplus ratio and core surplus ratio were 11.09 percent and 8.04 percent, respectively, as compared to 11.52 percent and 8.74 percent, respectively, on December 31, 2001.

Annually the Association establishes target capital ratios. The Association's 2002 target permanent capital ratio was 12.50 percent of risk-adjusted assets. The targeted total surplus and core surplus ratios for 2002 were 11.00 percent and 7.00 percent, respectively. As of December 31, 2002, the Association did not meet the target level of permanent capital of 12.50 percent and had an actual ratio of 11.77 percent due to the growth the Association experienced in 2002. The actual capital ratios for total surplus and core surplus exceeded targeted levels. Management has taken actions designed to strengthen the Association's capital position. The Association is obtaining additional FSA guarantees on both new and existing credits and has increased the use of the Farmer Mac in-portfolio guarantee program. Both actions will reduce the risk-rating on such guaranteed loan assets and improve the Association's capital ratios. The balance of Farmer Mac in-portfolio guarantees was $82,479 and $28,256 at December 31, 2002 and 2001, respectively. The Association continues to monitor the portfolio for additional potential placements in the Farmer Mac in-portfolio guarantee program.

IRS TAX SETTLEMENT

System Agricultural Credit Associations (ACAs) entered into a settlement process with the IRS to resolve conclusively the status of all claimed refunds and the ongoing tax status of the ACAs using another ACA as a model. In August 2000, the model ACA reached a settlement agreement with the IRS, which established the collectibility of a portion of the claimed refunds of taxes previously paid, plus interest, related to income earned in prior years from the mortgage lending activities of the ACA. This settlement agreement also confirmed that all income generated by an ACA will be taxable in future periods. However, an ACA may reorganize to operate their long-term mortgage lending activities through a newly created Federal Land Credit Association (FLCA) and newly created Production Credit Association (PCA) subsidiary. Income earned by the FLCA subsidiary is exempt from taxation. The Association reorganized in such a manner effective January 1, 2002.

PROPOSED CONSOLIDATION

In November 2002, the Board of Directors of the Association, unanimously approved a resolution to consolidate with AgSouth Farm Credit, ACA headquartered in Statesboro, Georgia. The Board and management are in the process of preparing the required Disclosure document. Once complete and approved by both the respective boards, the consolidation proposal will be submitted to AgFirst Farm Credit Bank and the Farm Credit Administration for review and preliminary approval. The Disclosure will then be mailed to each respective voting stockholder for consideration. Stockholder votes will occur in July or August 2003. If approved by the stockholders and final approval is received from FCA, the consolidation will take place effective January 1, 2004. On December 31, 2002 the total assets were approximately $1.15 billion for the consolidating associations.

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report to stockholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to stockholders.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in South Carolina:

Location	Description	Form of Ownership
1880 Joe S. Jeffords Highway Orangeburg	Main	Owned
101 Northtown Drive Spartanburg	Administrative	Owned
2741 Whiskey Road South New Ellenton	Branch	Owned
Barnwell Highway Allendale	Branch	Owned
1325 Hwy 28 Bypass Anderson	Branch	Owned
628 W. Columbia Avenue Batesburg	Branch	Owned
624 W. Columbia Avenue Batesburg	Appraisal Office	Owned
15 Boulware Road Lugoff	Branch	Owned
529 Bells Highway Walterboro	Branch	Owned
690 Bypass 72, Suite A Greenwood	Branch	Leased*
123 W. Public Square Laurens	Branch	Leased**
1323 Kendall Road Newberry	Branch	Owned
305 W. Oakland Avenue Rock Hill	Branch	Owned
Highway 601 North St. Matthews	Branch	Owned
1192 Asheville Highway Spartanburg	Branch	Owned
702 Kate Lane Summerville	Branch	Owned
800 S. Calhoun Street Bamberg	SAM	Owned

The terms of the leases are:
** October 2001 – October 2003*
*** May 2001 – May 2006*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 12 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report to stockholders.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 10 and 12 to the consolidated financial statements included in this annual report to stockholders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this annual report to stockholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Lynn Z. Dantzler	President/Chief Executive Officer
Steven S. Wood	Executive Vice President/Chief Operating Officer
Alisa D. Gunter	Executive Vice President and Treasurer/Chief Financial Officer
R. H. Moore	Senior Vice President/Regional Lending Manager
A. Owen Smith, Jr.	Senior Vice President/Regional Lending Manager
K. Allen Buckner	Senior Vice President/Commercial Lending Manager
Ronald L. Summers	Senior Vice President/Commercial Lending Manager

The business experience for the past five years for all senior officers is with the Farm Credit System.

The total amount of compensation earned by the CEO and the highest paid officers as a group (including the CEO) during the years ended December 31, 2002 and 2001 and for the six months ended December 31, 2000 is as follows:

Name of Individual or No. in Group	Year	Annual Salary	Bonus	Total
Lynn Z. Dantzler	2002	$198,246	$ 3,960	$ 202,206
Lynn Z. Dantzler	2001	$185,000	$ 18,500	$ 203,500
Lynn Z. Dantzler	2000	$ 87,500	$ 8,750	$ 96,250
6 Officers	2002	$638,272	$ 25,349	$ 663,621
6 Officers	2001	$609,762	$ 81,225	$ 690,987
6 Officers	2000	$ 288,070	$ 88,849	$ 376,919

In addition to a base salary, all full-time Association employees participate in a performance-based team incentive plan. This Association pay-for-performance plan is designed to assist the Association in offering a competitive compensation plan to attract and retain highly-capable employees, to recognize and reward positive contributions to increased Association profitability, and to foster achievement of optimum business results. The plan includes both quality control and goals/results components and seeks to motivate employees to exceed the established business plan goals during the fiscal year. The quality control component includes such criteria as return on assets/equity, asset quality, average delinquencies and nonearning assets, credit and appraisal administration, and CIPA score. The goals/results component measures performance in the areas of loans closed, net interest income, growth in outstanding gross and net loan volume, and income derived from fees and financially related services. All full-time employees are covered by the plan, and the maximum potential annual pay-for-performance bonus is 12 percent of year-end salary. Prior to year-end the amount of any incentive payment or cash bonus is projected and the board of directors approves the expense of the projected award amount in the current fiscal year's operating expense. Payments for incentives earned under the plan are made during the first quarter of the following year. In addition to the pay for performance bonus amount, a one-time retention bonus is also included in the bonus amount for senior officers for the final six months of 2000.

During 2002, the Association entered into an employment agreement with Mr. Dantzler. Under the agreement, Mr. Dantzler may become entitled under a supplemental retirement program. This program provides deferred compensation benefits to encourage Mr. Dantzler to remain employed with the Association at least until April 30, 2004. Under this program, certain funds are set up in a Trust owned by the Association. Compensation is deferred until a later date upon which Mr. Dantzler meets certain vesting guidelines or the Board terminates employment, all as set forth in the employment agreement. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made. The Association accrued $150,012 in expense related to this agreement in 2002.

Disclosure of the total compensation earned in 2002 by any senior officer, or to any other individual included in the total whose compensation exceeds $50,000, is available to stockholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders upon request.

The aggregate amount for travel, subsistence and other related expenses for all directors as a group was $62,593 for 2002 and $51,233 for 2001.

Subject to approval by the board, the Association may allow directors honoraria of $250 for attendance at meetings, committee meetings, or special assignments and $100 honoraria for less than half-day meetings or assignments. Directors are also paid a monthly retainer fee of $250 each. Total compensation paid to directors as a group during 2002 was $159,950.

The following represents certain information regarding the directors of the Association. Each director has had the same occupation, as listed, in excess of five years.

Jerry A. Smoak, Chairman, is a retired vegetable grower and processor. He also serves on the boards of the South Carolina Farm Bureau (agricultural federation) and the Agricultural Society of South Carolina (agricultural promotion). During 2002, he served 9 days at Association board meetings and 37 days in other official capacities and was paid $13,450. Mr. Smoak has served as an Association director since April 1991, and his term of office expires in 2003.

Harry S. Bell, Vice Chairman, is a row-crop farmer and the former president of the South Carolina Farm Bureau. He also serves on the boards of the Ridge Mutual Ginnery (cotton ginning), the Ridge Farmers Mutual (farm supply business), and the Southeast Cotton Ginners/National Cotton Council (industry associations). Mr. Bell served 9 days at Association board meetings and 30 days at other official activities and was paid $11,700 in 2002. Mr. Bell has served as an Association director since April 1991, and his term of office expires in 2005.

Gary L. Alexander is a poultry farmer who also owns and operates a landscape supply business. Mr. Alexander is a board member of the South Carolina Poultry Federation (poultry promotion) as well as the Blue Ridge Electric Cooperative (electric cooperative). During 2002, he served 8 days at Association board meetings and 5 days at other official activities and was paid $6,100. Mr. Alexander has served as an Association director since April 1997, and his term of office expires in 2003.

Jack J. Arnold is a poultry farmer. During 2002, he served 9 days at Association board meetings and 8 days at other official activities and was paid $7,250. Mr. Arnold has served as an Association director since April 1991, and his term of office expires in 2005.

Earle J. Bedenbaugh, retired USDA administrator, is the outside director. Mr. Bedenbaugh is co-owner of Bedenbaugh Realty and Development. During 2002, he served 9 days at Association board meetings and 11 days at other official activities and was paid $7,550. Mr. Bedenbaugh has served as an Association director since April 1991, and his term of office expires in 2003.

Arthur Q. Black is a peach and strawberry farmer. He serves on the boards of the South Carolina and the York County Farm Bureaus (agricultural federations) and the board of Farmers Mutual Insurance (insurance). During 2002, Mr. Black served 9 days at Association board meetings and 6 days at other official activities and was paid $6,750. Mr. Black has served as an Association director since April 1991, and his term of office expires in 2004.

W. Baynard Boykin is a row-crop and timber farmer. Dr. Boykin is a board member of the South Carolina and the Kershaw County Farm Bureaus (agricultural federations), South Carolina Farm Bureau Marketing Association (grain marketing), and the advisory board of the Kershaw County Clemson Extension Service. He is also Director Emeritus of the South Carolina Peanut Board. During 2002, he served 9 days at Association board meetings and 33 days at other official activities and was paid $12,450. Dr. Boykin has served as an Association director since April 1991, and his term of office expires in 2004.

Charles Ray Brown is a cotton farmer who also operates a grain and farm supply facility. He currently serves on the Advisory Council of the Orangeburg County Extension Service (extension service), the board of Orangeburg County Farm Bureau (agricultural federation), and the Western Orangeburg County Industrial Park Commission (industrial recruitment). During 2002, he served 8 days at Association board meetings and 8 days in other official capacities and was paid $6,700. Mr. Brown has served as an Association director since April 1991, and his term of office expires in 2003.

Albert F. Busby is a retired county agent and dairy farmer. During 2002, he served 9 days at Association board meetings and 8 days at other official activities and was paid $7,250. Mr. Busby has served as an Association director since April 1991, and his term of office expires in 2004.

T. W. Buzhardt is a beef cattle farmer and an employee of Ridge Lumber, Inc. During 2002, he served 9 days at Association board meetings and 6 days at other official activities and was paid $6,750. Mr. Buzhardt has served as an Association director since April 1991, and his term of office expires in 2003.

Thomas H. Coward is a horse farmer and real estate developer. Mr. Coward also serves on the board of directors of the South Carolina Foundation Seed Association (certified seed association). During 2002, he served 9 days at Association board meetings and 20 days at other official activities and was paid $9,500. Mr. Coward has served as an Association director since April 1991, and his term of office expires in 2003.

Diane H. Edwins is a beef cattle, row crop, and timber farmer and part-time bookkeeper. Mrs. Edwins also serves on the board of the Berkeley Soil and Water Conservation District (conservation), the Lord Berkeley Conservation Trust (conservation) and the South Carolina Association of Conservation Districts (conservation). In 2002, she served 7 days at Association board meetings and 5 days at other official activities and was paid $5,250. Mrs. Edwins was elected to her director position in April 2002 and her term of office expires in 2005.

Eugene W. Merritt, Jr. is an ornamental tree farmer and landscape contractor. Mr. Merritt also serves on the boards of AgFirst Farm Credit Bank (agricultural lending), Peoples National Bank (banking), Peoples BankCorp (bank holding company), Jackson Companies (recreational), and Pickens County YMCA (recreational). During 2002, he served 8 days at Association board meetings and 4 days at other official activities and was paid $6,000. Mr. Merritt has served as an Association director since April 1991, and his term of office expires in 2003.

Samuel A. Milford is a beef cattle and hay farmer. He also serves on the board of Abbeville County Farm Bureau (agricultural federation) and the Abbeville County Cattlemens Association (cattle promotion). During 2002, he served 6 days at Association board meetings and 6 days at other official activities and was paid $6,000. Mr. Milford has served as an Association director since April 1992, and his term of office expires in 2004.

Edward M. Rast is a cotton gin operator and cotton farmer. Mr. Rast also serves on the board of O. L. Hughes Cotton Gin (cotton ginning). During 2002, he served 7 days at Association board meetings and 10 days in other official capacities and was paid $6,950. Mr. Rast has served as an Association director since April 1991, and his term of office expires in 2003.

C. Earl Thrailkill, Jr. is a turkey and beef cattle farmer, and he also serves on the board of the Chester County Farm Bureau (agricultural federation). During 2002, he served 8 days at Association board meetings and 6 days at other official activities and was paid $6,500. Mr. Thrailkill has served as an Association director since April 1994, and his term of office expires in 2005.

Raymond L. Tumbleston is a retired tomato farmer and real estate developer who also owns a tomato packing shed. He serves on the board of the Charleston County Farm Bureau (agricultural federation), the S.C. Migrant Commission (state commission), and the S.C. Tomato Growers Association (tomato promotion). During 2002, he served 9 days at Association board meetings and 14 days in other official capacities and was paid $8,750. Mr. Tumbleston has served as an Association director since April 1991, and his term of office expires in 2003.

Hugh E. Weathers is a dairy farmer. He serves on the boards of the South Carolina Farm Bureau (agricultural federation), the American Dairy Association of South Carolina (dairy promotion), the Bowman Area Development Council (business promotion), and the South Carolina Conservation Bank (funding for conservation easements). During 2002, he served 9 days at Association board meetings and 27 days in other official capacities and was paid $11,100. Mr. Weathers has served as an Association director since January 1998, and his term of office expires in 2003.

W. Gordon Wells is a timber farmer and plantation manager. He currently serves on the board of the Lowcountry Rural Conservation and Development Council (rural conservation and development) and the Jasper County Soil and Water Conservation Service (conservation). During 2002, he served 5 days at Association board meetings and 7 days in other official capacities and was paid $6,000. Mr. Wells has served as an Association director since April 1991, and his term of office expires in 2004.

Robert A. Youmans is a cotton, catfish, row crop, and turfgrass farmer. During 2002, he served 9 days at Association board meetings and 7 days in other official capacities and was paid $6,450. He has served as an Association director since April 1991, and his term of office expires in 2005.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 11 to the consolidated financial statements, "Related Party Transactions," included in this annual report to stockholders.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section.

Relationship with Independent Public Accountants

There were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 19, 2003, and the report of management, which appear in this annual report to stockholders are incorporated herein by reference.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-800-310-4805, or writing Alisa D. Gunter, Palmetto Farm Credit, P. O. Box 4966, Spartanburg, SC 29305.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Stockholder Investment

Stockholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of the District annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 503, or writing Patti Trotter, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at *www.AgFirst.com*.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
10 Tenth Street, Suite 1400
Atlanta, GA 30309
Telephone (678) 419 1000

Report of Independent Accountants

February 19, 2003

To the Board of Directors and Stockholders
of Palmetto Farm Credit, ACA

We have audited the accompanying consolidated balance sheets of Palmetto Farm Credit, ACA (Association) and its subsidiaries as of December 31, 2002, 2001, and 2000, and the related consolidated statements of income, of changes in members' equity, and of cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association and its subsidiaries at December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	December 31, 2002	December 31, 2001	December 31, 2000
Assets			
Cash	$ 1,716	$ 1,756	$ 1,728
Loans	619,021	579,058	489,079
Less: allowance for loan losses	13,928	14,848	14,469
Net loans	605,093	564,210	474,610
Accrued interest receivable	5,458	6,079	7,162
Investment in other Farm Credit institutions	10,841	12,129	12,944
Premises and equipment, net	3,292	3,631	3,645
Other property owned	1,825	1,745	1,790
Other assets	5,716	7,589	7,005
Total assets	$ 633,941	$ 597,139	$ 508,884
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 550,184	$ 508,594	$ 423,380
Accrued interest payable	1,943	2,161	2,549
Patronage refund payable	1,779	2,896	1,254
Postretirement benefits other than pensions	3,314	2,892	2,583
Other liabilities	6,196	3,631	3,063
Total liabilities	563,416	520,174	432,829
Commitments and contingencies			
Members' Equity			
Protected borrower equity	891	1,190	1,485
Capital stock and participation certificates	3,605	3,607	3,522
Retained earnings			
Allocated	36,974	36,989	35,224
Unallocated	35,960	35,179	35,824
Accumulated other comprehensive income (loss)	(6,905)	—	—
Total members' equity	70,525	76,965	76,055
Total liabilities and members' equity	$ 633,941	$ 597,139	$ 508,884

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED

STATEMENTS OF INCOME

(dollars in thousands)	2002	For the year ended December 31, 2001	2000
Interest Income			
Loans	$ 39,669	$ 43,043	$ 41,659
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	25,291	28,845	27,717
Net interest income	14,378	14,198	13,942
Provision for (reversal of) loan losses	3,000	400	—
Net interest income after provision for (reversal of) loan losses	11,378	13,798	13,942
Noninterest Income			
Loan fees	298	320	195
Fees for financially related services	87	154	136
Patronage refund from other Farm Credit institutions	5,193	3,854	3,180
Gains (losses) on other property owned, net	(61)	(283)	(145)
Miscellaneous	172	422	78
Total noninterest income	5,689	4,467	3,444
Noninterest Expense			
Salaries and employee benefits	7,245	5,863	5,839
Occupancy and equipment	825	847	851
Insurance Fund premium	183	—	2
Other operating expenses	2,309	2,289	1,915
Restructuring charge	—	—	1,193
Total noninterest expense	10,562	8,999	9,800
Income before income taxes	6,505	9,266	7,586
Provision (benefit) for income taxes	201	446	(491)
Net income	$ 6,304	$ 8,820	$ 8,077

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED

STATEMENTS OF CHANGES

IN MEMBERS' EQUITY

(dollars in thousands)	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 1999	$ 1,901	$ 3,648	$ 32,401	$ 35,412	$ —	$ 73,362
Net income				8,077		8,077
Protected borrower equity retired	(416)					(416)
Capital stock/participation certificates issued		296				296
Capital stock/participation certificates retired		(422)				(422)
Patronage distribution						
Cash				(2,285)		(2,285)
Qualified allocated retained earnings			5,332	(5,332)		—
Retained earnings retired			(2,568)			(2,568)
Distribution adjustment			59	(48)		11
Balance at December 31, 2000	1,485	3,522	35,224	35,824	—	76,055
Net income				8,820		8,820
Protected borrower equity retired	(295)					(295)
Capital stock/participation certificates issued		460				460
Capital stock/participation certificates retired		(375)				(375)
Patronage distribution						
Cash				(2,826)		(2,826)
Qualified allocated retained earnings			6,593	(6,593)		—
Retained earnings retired			(4,925)			(4,925)
Distribution adjustment			97	(46)		51
Balance at December 31, 2001	1,190	3,607	36,989	35,179	—	76,965
Comprehensive income						
Net income				6,304		6,304
Minimum pension liability					(6,905)	(6,905)
Total comprehensive income						(601)
Protected borrower equity retired	(299)					(299)
Capital stock/participation certificates issued		352				352
Capital stock/participation certificates retired		(354)				(354)
Patronage distribution						
Cash				(1,641)		(1,641)
Nonqualified allocated retained earnings			3,828	(3,828)		—
Retained earnings retired			(3,932)			(3,932)
Distribution adjustment			89	(54)		35
Balance at December 31, 2002	$ 891	$ 3,605	$ 36,974	$ 35,960	$ (6,905)	$ 70,525

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2002	2001	2000
Cash flows from operating activities:			
Net income	$ 6,304	$ 8,820	$ 8,077
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	301	346	341
Provision for (reversal of) loan losses	3,000	400	—
(Gains) losses on other property owned, net	61	194	145
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	621	1,083	(772)
(Increase) decrease in investment in other Farm Credit institutions	1,288	815	(239)
(Increase) decrease in other assets	1,873	(584)	(1,153)
Increase (decrease) in accrued interest payable	(218)	(388)	406
Increase (decrease) in postretirement benefits other than pensions	422	309	777
Increase (decrease) in other liabilities	(4,309)	584	(2,201)
Total adjustments	3,039	2,759	(2,696)
Net cash provided by (used in) operating activities	9,343	11,579	5,381
Cash flows from investing activities:			
Net (increase) decrease in loans	(44,471)	(90,165)	(57,110)
Purchase of premises and equipment, net	38	(332)	(427)
Proceeds from sale of other property owned	416	—	687
Net cash provided by (used in) investing activities	(44,017)	(90,497)	(56,850)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	41,590	85,214	59,382
Protected borrower equity retired	(299)	(295)	(416)
Capital stock and participation certificates issued	352	460	296
Capital stock and participation certificates retired	(354)	(375)	(422)
Patronage refunds paid	(2,723)	(1,133)	(3,243)
Retained earnings retired	(3,932)	(4,925)	(2,568)
Net cash provided by (used in) financing activities	34,634	78,946	53,029
Net increase (decrease) in cash	(40)	28	1,560
Cash, beginning of period	1,756	1,728	168
Cash, end of period	$ 1,716	$ 1,756	$ 1,728
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	$ 132	$ —	$ 1,667
Loans transferred to other property owned	720	165	681
Cash dividends or patronage distributions declared or payable	1,641	2,826	2,285
Supplemental information:			
Interest paid	$ 25,509	$ 29,233	$ 27,311
Taxes paid, net	237	355	379
Federal tax refunds related to long-term operations (Note 8)	—	809	—

The accompanying notes are an integral part of these financial statements.

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS

[DOLLARS IN THOUSANDS, EXCEPT AS NOTED]

Note 1 — Organization and Operations

A. **Organization:** Palmetto Farm Credit, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes in the counties of Abbeville, Aiken, Allendale, Anderson, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Cherokee, Chester, Colleton, Dorchester, Edgefield, Fairfield, Greenville, Greenwood, Hampton, Jasper, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Oconee, Orangeburg, Pickens, Richland, Saluda, Spartanburg, Union, and York in the state of South Carolina.

In November 2002, the Board of Directors of the Association unanimously approved a resolution to consolidate with AgSouth Farm Credit, ACA headquartered in Statesboro, Georgia. The Board and management are in the process of preparing the required Disclosure document. Once complete and approved by both respective boards, the merger proposal will be submitted to AgFirst Farm Credit Bank (the Bank) and the Farm Credit Administration (FCA) for review and preliminary approval. The Disclosure will then be mailed to each respective voting stockholder for consideration. Stockholder votes will occur in July or August 2003. If approved by the stockholders and final approval is received from FCA, the consolidation will take place effective January 1, 2004. On December 31, 2002, total assets were approximately $1.15 billion for the consolidating associations.

The Association is a lending institution of the Farm Credit System (the System) which was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987.

The nation is currently served by six Farm Credit Banks (FCBs), each of which has specific lending authorities within its chartered territory, and one Agricultural Credit Bank (ACB) which has nationwide lending authorities. Each FCB and the ACB serve one or more Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans and/or Agricultural Credit Associations (ACAs) that originate both long-term and short- and intermediate-term loans. ACAs may reorganize into a parent-subsidiary structure and may operate their long-term mortgage lending activities through a newly created FLCA subsidiary and their short- and intermediate-term lending activities through a newly created PCA subsidiary. PCAs, FLCAs and ACAs are collectively referred to as Associations.

Effective January 1, 2002, pursuant to a plan of restructuring approved by the FCA and Association shareholders, the Association reorganized its existing organizational structure. Pursuant to this restructuring, an FLCA and a PCA were formed as wholly owned subsidiaries of the Association. The formation of these subsidiaries enables the Association to take advantage of the tax-exempt status of net income from long-term mortgage operations of the FLCA. This restructuring was accounted for as a reorganization of entities under common control similar to a pooling of interests.

Prior to the restructuring, the ACA was subject to federal and state income tax. As a result of the restructuring, long-term lending activity was separated into a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. The ACA, which is the holding company, along with the wholly owned PCA subsidiary, continue to be subject to income tax.

The Bank and its related Associations are collectively referred to as the "District." The Bank is responsible for supervising the activities of the Association, as well as the other associations operating within the AgFirst District. The District consists of the Bank and twenty-four ACAs, twenty-one of which have reorganized as ACA parent-subsidiary structures as of

December 31, 2002. Effective January 1, 2003, one additional Association will reorganize as an ACA holding company.

The Association makes short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The FCA is delegated authority by Congress to regulate the System banks and associations. The activities of the associations are examined by the FCA and certain actions by the associations are subject to the prior approval of the FCA and the supervising Bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used to (1) ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund, based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Consolidation:** On April 17, 2000, the Association stockholders of Edisto Farm Credit, ACA (Edisto), and Palmetto Farm Credit, ACA (Palmetto), approved a plan of consolidation to form Palmetto Farm Credit, ACA (the Association) and the consolidation was effective July 1, 2000. On June 28, 2000, the FCA gave its approval of the consolidation.

The consolidation was accounted for at historical cost in a manner similar to that used in a pooling of interests. Accordingly, the financial statements for all periods presented have been restated to include the accounts of Edisto and Palmetto. The Association succeeded to all rights and obligations of the two former associations pursuant to the plan of the consolidation. At July 1, 2000, the accounting practices used by the former associations were consistent in all material respects. Certain reclassifications were made to conform financial statement presentation. Intercompany transactions between the former associations were immaterial.

See Note 13 for additional information related to the consolidation.

C. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any Farm Credit borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Upon request, stockholders of the Association will be provided with an AgFirst Farm Credit Bank Annual Report to Stockholders, which includes the combined financial statements of the Bank and its related Associations. The Association's financial condition may be impacted by factors that affect the Bank. The AgFirst Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the AgFirst Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Financial Assistance Corporation Assistance Board (Assistance Board) and Insurance Corporation.

The lending and financial services offered by the Bank are described in Note 1 of the District's Annual Report to Stockholders.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The consolidated financial statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statement of cash flows, represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, the interest portion of payments received in cash are generally recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. Loan principal and interest, when appropriate, are charged against the allowance for loan losses when management believes collection is unlikely.

The allowance for loan losses is based upon estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

C. **Investment in AgFirst Farm Credit Bank:** The Association is required to maintain ownership in the Bank in the form of B and C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is included in other assets.

D. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in gains (losses) on other property owned.

E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful life. Estimated useful lives of premises and equipment are summarized as follows:

Buildings and Improvements	40 years
Furniture and Equipment	5 to 10 years
Automobiles and Trucks	4 years
Computer Equipment	3 years

Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

F. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

G. **Employee Benefit Plans:** The employees of the Association participate in the District's defined benefit retirement plan (the Plan). The "Projected Unit Credit" actuarial method is used for financial reporting purposes and the "Entry-Age Normal Cost" method for funding purposes. As a result of the funded status at the Plan's measurement date (September 30) of the underlying Plan, the Association may record a minimum liability, an intangible asset relating to unrecognized prior service cost and other comprehensive income (loss). The adjustment to other comprehensive income (loss) would be net of deferred taxes, if significant.

The employees of the Association are eligible to participate in the District's thrift/deferred compensation plan (Thrift Plan); a percentage of employee contributions is matched by the Association. Thrift Plan costs are expensed as funded.

The Association provides certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Association. Expenses of $697, $549 and $929 for the years ended December 31, 2002, 2001 and 2000, respectively, were classified as employee benefits.

H. **Income Taxes:** The Association is generally subject to federal and certain other income taxes. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. The Association recognizes deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

Effective January 1, 2002, the Association formed a tax exempt subsidiary as described in Note 1.

I. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2002	2001	2000
Long-term farm mortgage	$ 335,527	$ 270,189	$ 213,246
Production and intermediate-term	248,435	245,363	234,017
Rural home	48,446	49,147	49,954
Farm related business	3,381	3,495	2,503
Aquatic	976	742	583
Processing and marketing	22,325	44,904	16,275
Sales contracts	2,995	3,120	4,688
Nonaccruals	6,546	2,079	1,467
Plus: participations purchased	25,037	32,732	15,884
Less: participations sold	(74,647)	(72,713)	(49,538)
Total	$ 619,021	$ 579,058	$ 489,079

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Total loans at December 31, 2002, 2001 and 2000 consisted of the following commodity types:

Commodity Type	December 31, 2002	2001	2000
Timber	31%	32%	28%
Broilers	12	11	12
Feed/Grain/Soybeans/Hay	9	9	8
RHL, PMM	9	9	11
Beef Cattle	8	8	8
Horses	5	5	5
Cotton	4	5	5
Timber Processing/Harvesting	4	—	—
Sod/Nursery	3	3	2
Eggs	2	2	2
Fruit and Nut	2	3	3
Landlords	2	3	3
Turkeys	2	3	4
Vegetables	2	2	2
Dairy	1	1	2
Hogs	1	1	1
Aquatic Products, Catfish	—	—	1
Other	3	3	3
Total	100%	100%	100%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms.

The following table presents information relating to impaired loans.

	December 31, 2002	2001	2000
Nonaccrual:			
Current as to principal and interest	$ 456	$ 431	$ 896
Past due	6,090	1,648	571
Accrual:			
Restructured	199	353	1,125
90 days or more past due	77	770	71
Total impaired loans	$ 6,822	$ 3,202	$ 2,663

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2002.

The average recorded investment in impaired loans during 2002, 2001 and 2000 was $7,894, $1,531 and $1,803, respectively. Impaired loans of $65, $38 and $440 at December 31, 2002, 2001 and 2000, respectively, had related specific allowances for loan losses totaling $61, $34 and $91, respectively. The Association recognized interest income on impaired loans of $394 in 2002, $460 in 2001 and $778 in 2000.

The Association recognized interest income on nonaccrual loans in the form of cash payments totaling $174 in 2002, $149 in 2001 and $384 in 2000. Interest reversed was not significant.

A summary of the changes in the allowance for loan losses follows:

	Year Ended December 31,		
	2002	2001	2000
Balance at beginning of year	$ 14,848	$ 14,469	$14,442
Provision for (reversal of) loan losses	3,000	400	—
Loans charged off	(3,982)	(96)	(78)
Recoveries	62	75	105
Balance at end of year	$ 13,928	$ 14,848	$14,469

To mitigate the risk of loans being placed in nonaccrual status, the Association may enter into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs. The balance of loans under long-term standby commitments was $82,479 and $28,256 at December 31, 2002 and 2001, respectively. Fees paid to Farmer Mac for such commitments totaled $227 and $24 for the years ended December 31, 2002 and 2001, respectively. These amounts are classified as noninterest expense.

Note 4 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2002	2001	2000
Land	$ 663	$ 890	$ 663
Buildings and improvements	3,849	3,840	3,859
Furniture and equipment	1,884	1,826	1,859
	6,396	6,556	6,381
Less: accumulated depreciation	3,104	2,925	2,736
Total	$ 3,292	$ 3,631	$ 3,645

Note 6 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and Association. The weighted average interest rates on the variable rate notes were 2.55 percent for LIBOR-based loans, 2.36 percent for Prime-based loans, and the weighted average remaining maturities were 5.4 years and 5.9 years, respectively, at December 31, 2002. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 4.94 percent and the weighted average remaining maturity was 10.2 years at December 31, 2002. The weighted average interest rate on all interest-bearing notes payable was 3.94 percent and the weighted average remaining maturity was 8.3 years at December 31, 2002.

Variable rate and fixed rate notes payable represent approximately 31.85 percent and 68.15 percent, respectively, of total notes payable at December 31, 2002.

The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2002, the Association's notes payable were within the specified limitations.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Borrower Equity**

Protection of certain borrower equity is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and of core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2002 were 11.77 percent, 11.09 percent and 8.04 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. **Description of Equities**

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2002:

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
A Common/Nonvoting	Yes	2,866	$ 14
B Common/Nonvoting	Yes	139,888	700
C Common/Voting	No	572,986	2,865
B Participation Certificates/Nonvoting	Yes	35,390	177
C Participation Certificates/Nonvoting	No	148,079	740
Total Capital Stock and Participation Certificates		899,209	$ 4,496

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2002, allocated members' equity consisted of $33,146 of qualified surplus and $3,828 of nonqualified allocated surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock, or on all classes of stock and participation certificates.

The rate of dividends paid on Classes A or D Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these financial statements.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

In the event of the liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to the holders of the outstanding stock and participation certificates in the following order of priority:

1. Holders of Classes A and D Preferred Stock any, until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders

2. Holders of Class A Common Stock, Class B Common Stock, Class C Common Stock, Class B Participation Certificates and Class C Participation Certificates

3. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed

4. Holders of unallocated surplus except (i) unallocated surplus that was accrued by Edisto prior to April 19, 1995, and (ii) unallocated surplus that was accrued by Palmetto prior to May 2, 1995, shall be distributed to Patrons on a patronage basis

5. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

E. **Other Comprehensive Income (Loss)**

The Association reports other comprehensive income (loss) in its Statement of Changes in Members' Equity. For the year ended December 31, 2002, the other comprehensive income (loss) results from a minimum pension liability adjustment of $6,905 as a result of the funded status of the underlying plan.

Note 8 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2002	2001	2000
Current:			
Federal	$ (28)	$ 452	$ 343
State	(83)	72	55
Federal refunds related to long-term lending	—	(71)	(809)
	(111)	453	(411)
Deferred:			
Federal	(96)	(6)	(69)
State	42	(1)	(11)
Deferred tax write-off	366	—	—
	312	(7)	(80)
Total provision (benefit) for income taxes	$ 201	$ 446	$ (491)

In connection with the restructuring discussed in Note 1, net deferred tax assets of $366 relating to the long-term lending activities were written off during the first quarter of 2002 to reflect the change in tax status. Additionally, during 2000, the Association signed a settlement agreement with the IRS resolving the taxability of the prior years' earnings from its long-term mortgage lending activities. This settlement agreement was modeled after one used by another System ACA to reach a settlement agreement with the IRS in August 2000. As a result of this settlement, the Association recorded a tax refund of $809 related to the IRS tax refund in 2000. In addition, the Association recorded $310 in interest related to these refunds, which is included in Other Income in the accompanying Consolidated Statements of Income. In addition, the Association accrued $71 as a tax refund during 2001.

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31, 2002	2001	2000
Federal tax at statutory rate	$ 2,263	$ 3,150	$ 2,579
State tax, net	(27)	51	39
Patronage distributions	(466)	(2,744)	(2,590)
Tax-exempt FLCA earnings	(1,791)	—	—
Long-term lending related refunds	—	(71)	(809)
Deferred tax asset adjustment	366	—	—
Other	(144)	60	290
Provision (benefit) for income taxes	$ 201	$ 446	$ (491)

Deferred tax assets and liabilities result from the following at:

	December 31, 2002	2001	2000
Allowance for loan losses	$ 197	$ 554	$ 540
Annual leave	47	42	34
Nonaccrual loan interest	5	12	13
Postretirement benefits other than pensions	53	150	126
Merger adjustment	—	—	168
Gross deferred tax assets	302	758	881
Future Bank equity redemption	(266)	(316)	(354)
Loan fees	(15)	(21)	(22)
Pensions	(76)	(166)	(131)
Depreciation	—	2	—
Merger adjustment	—	—	(124)
Gross deferred tax liability	(357)	(501)	(631)
Net deferred tax asset (liability)	$ (55)	$ 257	$ 250

At December 31, 2002, deferred income taxes have not been provided by the Association on approximately $3.5 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

Note 9 — Employee Benefit Plans

The Association participates in a Districtwide defined benefit retirement plan. This plan is noncontributory and covers substantially all Association employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times the Association's salary expense as a percentage of the District's salary expense.

At December 31, 2002, the Accumulated Benefit Obligation (ABO) of the District's defined benefit plan exceeded the fair value of plan assets. In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions", (SFAS No. 87), the recognition of a minimum liability in the amount of the excess of the ABO over the fair value of plan assets is required. At December 31, 2002, the Association's allocated amount of minimum liability of $3,751 was recognized. In conjunction with the recognition of the minimum liability, a reduction in Other Comprehensive Income of $6,905 was recorded. The impact on deferred taxes was not significant.

The Association also participates in a districtwide Thrift Plan. The Thrift Plan requires the Association to match 50 percent of employee optional contributions up to a maximum employee contribution of 6 percent of total compensation.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability.

The following is a table of retirement and postretirement benefits expenses (credits):

	2002	2001	2000
Pension	$ 819	$ 25	$ 415
Thrift/deferred compensation	135	138	129
Other Postretirement benefits	697	549	929
Total	$ 1,651	$ 712	$ 1,473

Note 10 — Intra-System Financial Assistance

The Farm Credit System Financial Assistance Corporation (Financial Assistance Corporation) was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the Financial Assistance Corporation's issuance of $1.261 billion of 15-year U.S. Treasury-guaranteed debt. The interest rates on these issuances range from 8.80 percent to 9.45 percent. The repayment of this debt and related interest is the responsibility of System banks.

Each System bank may be required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding. The Bank, in turn, may also assess the Association for insurance premiums based on the average principal outstanding of accrual and nonaccrual loans of the Association for each year. At December 31, 2002, the assets in the Insurance Fund aggregated $1.839 billion. However, due to the authorized uses of the Insurance Fund, there is no assurance that such assets will be available or sufficient to ensure the payment of principal of, or interest on, insured debt securities in the event of a default by any System bank having primary liability thereon.

Note 11 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2002 amounted to $10,125. During 2002, $2,251 of new loans were made and repayments totaled $6,724. In the opinion of management, none of these loans outstanding at December 31, 2002 involved more than a normal risk of collectibility.

Note 12 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities as discussed elsewhere in these Notes to the Consolidated Financial Statements.

Note 13 — Consolidation of Edisto Farm Credit, ACA and Palmetto Farm Credit, ACA

As described in Note 1(B), effective July 1, 2000, Edisto Farm Credit, ACA and Palmetto Farm Credit, ACA consolidated to form the Association. The consolidation has been accounted for at historical cost in a manner similar to a pooling of interests and, accordingly, the Association's financial statements have been restated to include the accounts and operations of the three associations for all periods prior to the consolidation.

Separate results of operations of Edisto and Palmetto for the period prior to the consolidation are presented in the following table:

	Edisto	Palmetto	Combined
Six months ended June 30, 2000 (unaudited)			
Net interest income	$3,225	$3,529	$6,754
Net income	1,734	2,213	3,947

Costs incurred related to the consolidation during 2000 were $1,193, which is included in salaries and benefits. Other consolidation costs included in the income statement were not significant.

Note 14 — Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Association may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers. These financial instruments include commitments to extend credit and standby letters of credit.

Standby letters of credit are unconditional commitments issued by the Association to guarantee the performance of a customer to a third party. As of December 31, 2002, the Association had $3,739 outstanding in such guarantees, predominantly with terms of one year or less.

At December 31, 2002, $38,004 of commitments to extend credit were outstanding. Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Note 15 — Disclosures About Fair Value Of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2002, 2001 and 2000. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 1,716	$ 1,716	$ 1,756	$ 1,756
Loans	$619,021	$633,056	$579,058	$574,300
Allowance for loan losses	13,928	—	14,848	—
Loans, net	$605,093	$633,056	$564,210	$574,300
Financial liabilities				
Notes payable to AgFirst Farm Credit Bank	$550,184	$552,996	$508,594	$504,161

	December 31, 2000	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 1,728	$ 1,728
Loans	$489,079	$491,162
Allowance for loan losses	14,469	—
Loans, net	$474,610	$491,162
Financial liabilities		
Notes payable to AgFirst Farm Credit Bank	$423,380	$426,574

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. **Cash:** The carrying value is a reasonable estimate of fair value.

B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

   For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

   Fair value of loans in a nonaccrual status is estimated to be the carrying amount less specific reserves.

   The carrying value of accrued interest approximates its fair value.

C. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 4, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 5.51 percent of the issued stock of the Bank as of December 31, 2002 net of any reciprocal investment. As of that date, the Bank's assets totaled $14.7 billion and shareholders' equity totaled $757 million. The Bank's earnings were $194 million during 2002.

   In addition, the Association has an investment of $379 related to other Farm Credit institutions.

D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

E. **Commitments to Extend Credit and Standby Letters of Credit:** The estimated market value of off-balance-sheet commitments is nominal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

Note 16 — Quarterly Financial Information (Unaudited)

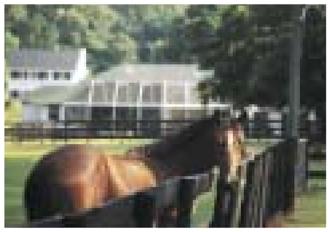
Quarterly results of operations for the years ended December 31, 2002, 2001 and 2000 follow:

	2002				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,441	$ 3,263	$ 3,651	$ 4,023	$ 14,378
Provision for (reversal of) loan losses	250	1,500	1,000	250	3,000
Noninterest income (expense), net	(1,427)	(1,314)	(1,278)	(1,055)	(5,074)
Net income (loss)	$ 1,764	$ 449	$ 1,373	$ 2,718	$ 6,304

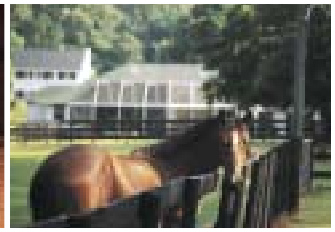
	2001				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,546	$ 3,484	$ 3,355	$ 3,813	$ 14,198
Provision for (reversal of) loan losses	100	100	100	100	400
Noninterest income (expense), net	(1,166)	(1,274)	(1,278)	(1,260)	(4,978)
Net income (loss)	$ 2,280	$ 2,110	$ 1,977	$ 2,453	$ 8,820

	2000				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,175	$ 3,579	$ 3,619	$ 3,569	$ 13,942
Provision for (reversal of) loan losses	—	—	—	—	—
Noninterest income (expense), net	(1,340)	(1,467)	(2,229)	(829)	(5,865)
Net income (loss)	$ 1,835	$ 2,112	$ 1,390	$ 2,740	$ 8,077









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